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# Financing the Future

Long-Term Financial Planning for Local Government

With an introduction  
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## The City of Long Beach and Long-Term Planning

The City of Long Beach, California (population 491,564), was facing an extremely difficult situation. The city had been operating with a structural deficit for more than fifteen years, but had been able to cover those deficits by using discretionary reserves and one-time funding sources. However, as a result of a voter-mandated tax reduction, rising pension costs due to stock market losses, enhanced (negotiated) benefits, steadily increasing employee health insurance costs, and other factors, the situation had worsened to the point where these solutions were no longer adequate to cover the projected structural deficit of \$43 million in the next fiscal year, potentially growing as large as \$102 million two years after that.

The first step in addressing this problem was recognition. As the city had operated for some time in a deficit environment, something was needed to demonstrate that the old solutions would no longer suffice. Therefore, the city created long-range revenue and expenditure projections to demonstrate the size of the deficit. This action, combined with an analysis of the fiscal environment, showed that the deficit would only grow to even more unmanageable proportions if no action were taken, as the city was destined to face persistent resource shortages and rising expenditures.

Once decision makers were convinced of the gravity of the situation, solutions needed to be developed. The city began to survey the community to identify the lowest and highest priority services and also to work with staff from across the organization to identify cost-reduction and revenue-generating opportunities. Using information on citizen's service-level preferences and staff ideas, staff was able to work with the city council to identify cuts and service adjustments such that city projections showed that the structural deficit would be reduced to less than \$1 million after three years. This allowed the city to use its accumulated reserves to make a "soft landing" — all staff re-

ductions were accomplished through attrition, without layoffs. The city felt that fair treatment of employees was critical to maintaining the organization's effectiveness beyond the current crisis.

The elements of revenue and expenditure projection, fiscal environment analysis, financial analysis, financial strategy development, and cooperation and communication between a wide range of stakeholder groups—including elected officials, staff, and citizens—are all hallmarks of successful long-term financial planning. Long Beach's story demonstrates the critical role that long-term financial planning can play in securing the financial position of a government.

Long-term financial planning is not just a one-time event in response to crisis, as Long Beach's experience also illustrates. The city has built on its success by providing regular reports of its progress under the plan to the city council and the community, and by updating the plan annually. The city also took steps to consolidate the hard-earned gains resulting from its planning process. By the end of the first year, the city had adopted new financial policies to safeguard against the kinds of decisions that led to the structural deficit. Second, the city began to change the way it delivered services, with a focus on optimized service delivery and efficiency.

Finally, Long Beach launched a performance-based program budgeting system to provide the analytic and management tools necessary to make the most appropriate investments with its limited resources, and to communicate the outcomes that these investments are expected to produce. Through more transparent policy controls, streamlined work processes, organizational focus on shared community goals, and long-term financial planning, the City of Long Beach is determined to be a much more effective steward of the public's trust and resources.

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